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CHAPTER VIII
SUMMARY, CONCLUSIONS AND POLICY IMPLICATIONS

8.1 Introduction

The performance of any economy is measured in terms of the trends and pattern of macro economic variables which include national income, consumption, saving, investment and employment. There are various theories and hypotheses on these macro economic variables. Between 1930s and 1950s large number of arguments were developed on consumption behavior and later underwent empirical testing by prominent economists like Keynes, James Duesenberry, Friedman, Brumberg, Ando and Modigliani. Cross country and inter temporal evidences proved, disproved and partially proved these hypotheses. In India also consumer behavior across states attracted the attention of economists. In certain states consumption trends are alarming and very high MPC in those regions cripple saving and consequently investment.

On the contrary Kerala economy underwent radical changes. The educational and technological horizon of the society has expanded in the direction of western outlook. Besides social mobility and prosperity is adding new dimensions. Pressures of modern life seem to have changed the rural dweller who is bound by tradition. Commercial and consumerist tendencies have overtaken the rationale of the rural consumers. Rural
The indicators of physical quality of life in Kerala have been very high. In terms of social indicators, Kerala is comparable to countries like USA. In terms of per capita income, Kerala stands below the all India average until recently. However, the state manages to have a high consumption standard. In this context, the present study attempted to analyse the socioeconomic background and consumption pattern of households in urban and rural areas.

**Statement of the problem**

Kerala stands unique among the Indian states with a consistently higher level of human development comparable with that of many advanced countries but with a much lower per capita income. The higher consumption has compelled the state to import a number of consumer goods from the rest of the country there by turning Kerala into a consumer state. In fact, some of the multi national corporations even selected Kerala for the first launching of their products. This indicates high degree of consumerism prevailing in Kerala.

Being a consumer state, the pattern of consumption expenditure in Kerala is different from that of all India. The average percapita consumer expenditure was below the national level until 1970s. In 1970s the average consumer expenditure both in rural and urban sectors was close to the all India level. Since then per capita consumption expenditure in Kerala exceeded that of all India. Hence, the study examined the consumption expenditure of urban and rural households of the state.
Objectives

1. To examine the sources of income and consumption of households in rural and urban Kerala.

2. To examine the trends and pattern of consumption among the rural and urban consumers in Kerala.

3. To identify and analyse the determinants of household consumption in Kerala.

4. To identify the urban and rural consumption expenditure disparities in Kerala.

Hypotheses

1. There is significant difference in the food and non-food expenditure between urban and rural households on the basis of MPCE.

2. Average monthly per capita expenditure is inversely related to family size.

3. Expenditure inequality is inversely related to MPCE.

4. There is close resemblance in the expenditure elasticity of different items among rural and urban households.

5. There is significant association between consumption expenditure and income, size of household, education and occupation of the head of the household.

Methodology

The study made use of primary and secondary data to analyse the objectives of the study. Secondary data were collected from various issues of
Findings of the study

8.2 GDP Growth - The Indian Experience

India has achieved considerable progress since independence. For half a century before Independence, the Indian economy registered virtually no growth at all. In the first three decades after Independence GDP increased at 3.5 per cent per annum. In the next three decades annual growth rate went up to nearly 6.0 per cent. Indian economy since 1991 has been undergoing constant and drastic economic reforms. In the past few years the growth rate has been closer to 9.0 per cent per annum. Thus India has responded positively to the dramatic changes that have been introduced over the last two decades. Process of development of the economy gained momentum during the nineties with the initiation of major economic reforms in 1991.

8.3 Trend and Pattern of private final consumption expenditure (PFCE)

PFCE is found to be the most important component of GDP. PFCE as percent of GDP was as high as 87 percent in 1951, during the eighties declined to 74.16 percent, which has further declined to 62.27 percent in 200-01. Inspite of the considerable fluctuations, PFCE still continues to occupy major share in GDP. The pattern of PFCE shows significant changes during the last several years. PFCE classification showed that there has been
substantial fall in the proportion of expenditure on food while expenditure on non-food items depicted a steady rising trend.

### 8.4 Consumer Base

SDP of Kerala, since its inception in 1956 has been low compared to the GDP of the country. Growth rates in per capita Net state Domestic product (NSDP) shows that in the eighties Kerala recorded a growth of 4.83 percent as against the All India rate of 5.36 percent. But in the nineties Kerala has moved away from the growth stagnancy syndrome. Kerala’s economic growth performance is nearly equal to all India during this period. Growth rates in APCE shows that Kerala recorded a growth rate 19.6 percent as against the All India rate of 10.9 percent. Acceleration in the growth in per capita SDP during 1993-94 to 1999-2000 was only 4.01 percent while at the national level it (GDP) was 4.36 percent which indicates that major changes have taken place in the economy with major impact on the consumers.

### 8.5 MPCE and distribution of households

11.10 percent of rural population of Kerala belongs to households with average MPCE less than Rs.410. On the other hand 40.30 percent of Indian rural population had MPCE less than Rs.410. In India rural population was more concentrated in the lower level of MPCE. About 5 percent of rural population of India belong to households with MPCE of more than Rs.1115. At the state level, 23.8 percent of rural population was in the highest MPCE class of more than Rs.1115. The poorest 5 percent of urban population of India belong to households with less than Rs.335 whereas at the state level the same was 2.90 percent. About 5 percent of urban population of India had MPCE of Rs.2540 or more. In urban Kerala
7.9 percent of population belong to households with MPCE more than Rs.2540. Lesser number of households (both urban and rural) in Kerala belong to lower MPCE classes and large number of households’ belong to upper MPCE classes when compared to all India.

8.6 Average MPCE

In 2004-2005, average MPCE was Rs.559 and Rs.1013 in rural India and Kerala and Rs.1052 and Rs. 1290 in urban India and Kerala respectively. The gap between rural and urban MPCE was of the order of Rs.493 at the all India level whereas in Kerala it was only Rs.276.84. Average MPCE in rural Kerala exceeded rural India by 81.25 percent and in urban areas by 22.71 percent. Food expenditure in urban India is 45.46 percent higher than in rural areas whereas in Kerala it is only 13.25 percent. Non-food expenditure per person in urban India is 140.83 percent higher than rural India whereas in Kerala it is only 38.99 percent, which reveals that disparity in rural urban consumption levels is meager in Kerala.

8.7 Proportion of expenditure on food and nonfood

In rural Kerala, expenditure on food and non-food formed 45 percent and 55 percent respectively of total consumption expenditure whereas in urban areas it was 40 percent and 60 percent. However, in rural India food and non-food expenditure constituted 55 percent and 45 percent respectively, the same in urban areas was 43 percent and 57 percent. Kerala is not only better off compared to the national level, but also is found to be spending a great deal more on non-food items and better off food items.
8.8 Level and pattern of consumption expenditure

Looking at the consumption expenditure on different food and non-food items for seven different rounds of NSS it is found that over the period 1972-73 to 2004-05 the expenditure has increased significantly, changing the consumption basket itself. MPCE registered a rise of 21.24 percent and 18.91 percent in urban and rural areas of Kerala whereas in India MPCE changed by 15.62 percent in urban and 11.64 percent in rural areas.

8.9 Movement in budget share

Significant changes have taken place in the consumption pattern. During seventies, in Kerala the share of food in total expenditure was as high as 70.04 percent and 64.85 percent in rural and urban areas respectively. A sharp decline is visible from 1983 onwards. However, for the entire period the relative importance of some items among the group of food and non-food articles has shown great change. There has been a substantial fall in the percent of food expenditure (25 percent points in urban and 16 percent points in rural Kerala).

Even with in food there have been major changes. The share of cereals in total consumption expenditure has come down and the share of better off food has increased. The other change has been the increasing share of non-food consumption. More than half of the expenditure was on education, medical care, miscellaneous goods and services, and durable goods.
8.10 Evidences from micro level data

Of the 300 households, there was a population of 1229; which constituted 48.73 percent males and 51.26 percent females. Kerala is the only state where sex ratio is favourable to women which indicates high status of women in the society.

(1) The survey revealed that a sizable percent of population (89.60 percent in urban areas and 88.70 percent in rural areas) belong to the age group of 15-59, which implies that more people belong to the productive age group.

(2) Average number of earners in the household (both urban and rural) is found to be 1.51, which leads to higher dependency ratio. A very high \( \chi^2 \) value indicates that the number of earning members and dependents are related.

(3) It is seen that households are concentrated at size four or five in both urban and rural areas. Average household size of urban and rural sample is 4.10 and 4.09 respectively.

(4) Majority of the respondents come from nuclear families (92 percent) and only 8 percent of them hail from joint families.

(5) Kerala is far ahead of other states in solving the problems of housing. There is remarkable similarity in the general facilities available to sample households in both urban and rural areas. The survey showed that 76 percent and 85 percent of households in urban and rural areas had their own houses. Regarding roofing 77 percent of houses had reinforced cement roofing in urban areas and the same in rural areas 81
percent. The general characteristics of a house like number of rooms, flooring and year of construction indicate that houses were well built and well maintained.

(6) Religion wise distribution showed that 50 percent of population was Hindus, 42 percent Christians and only 7.33 percent Muslims. The caste wise distribution showed that majority belong to forward community. SC and ST account for only 7.10 percent and 2 percent of the population respectively.

(7) Education is really a symbol of status, five educational levels of the respondents were taken into account in this study. Due to improvement in education system and concession given by the government, illiterates account for only 1.64 percent, 21 percent studied up to primary level and 47.52 percent up to higher secondary level. People with higher qualification and professional qualification account for 29.28 percent of the total.

(8) Another unique feature of Kerala economy is the occupational diversity. Sample populations living in the urban areas belong to eight different categories. Salaried (24 percent), self-employed (0.60 percent), professional (4.35 percent), agricultural labour (2.95 percent), business (6.70 percent) and others (9.35 percent).

(9) Just like the urban areas rural areas too depict occupational diversity. Among the rural sample population (14.15 percent) of households, belong to salaried group, professional (4.45 percent), agricultural labour (2.70 percent), business (6.40 percent) and others (9.07 percent). In the urban and rural areas agricultural sector does not
provide fulfillment to man’s occupational pursuits in Kerala. In the urban and rural areas, occupation of the head of the household is the major source of income.

(10) Average monthly per capita income of urban sample households is Rs.4077 whereas in rural areas it is Rs.3837.

(11) Household size and MPCE in urban (Rs.3320) and rural (Rs.3062) areas show no remarkable difference.

(12) There is a significant and fairly strong correlation between income and expenditure both in urban (0.81) and rural areas (0.97).

(13) Share of expenditure on food items has registered a remarkable decline as hypothesized by Engel’s law of consumption.

(14) Consumers on the average enjoy a much higher level of consumption in both the regions. The level of consumption in all major lines has increased. All households consume common commodities.

(15) Rural urban gaps in the consumption of various food items tended to narrow down as we move up the per capita expenditure ladder which shows that expenditure inequality is inversely related to MPCE. This finding supported the third hypothesis.

(16) Consumption pattern of the lowest expenditure class is food oriented. Food items claimed more than half of the total expenditure in both regions. Consumption pattern for lower income classes do not reveal a situation of misery.

(17) Expenditure on non-food items for the lower expenditure class is relatively less due to high prices of these items in relation to their
income. For relatively costly non-food items per capita expenditure tends to increase as we move up. Comparison of expenditure level in the two regions indicates uniformity in consumption pattern. Results of F test for food and non food expenditure show that there is no significant difference between urban and rural areas with respect to expenditure on food and nonfood.

(18) The consumption pattern of selected rural households is urban area like in its taste and needs. From the primary data, it can be inferred that consumption inequality between rural and urban areas is negligible. Gini Ratio for food is 0.24 and for non-food 0.39 in urban areas whereas in rural areas it is 0.27 and 0.40 respectively.

(19) Expenditure on non food items show no great disparity among the urban and rural areas. Low $\chi^2$ value shows that there is no association between MPCE and area. This finding rejected the initial hypothesis of the study.

(20) Results of chi square test revealed that there is significant association between monthly per capita expenditure and income, education, occupation and size. This finding supported the last hypothesis.

(21) Results of regression using double log model revealed that there is close resemblance in the expenditure elasticity of different items among urban and rural households in the study area. Thus the hypothesis that there is close resemblance in the expenditure elasticity of different items among urban and rural households is accepted.
8.11 Policy Implications

From the analysis of consumption expenditure, both at macro and micro levels, certain lessons have emerged which have important policy implications. Among the developed economies of the world Kerala has attracted global attention for its high social development with its low economic growth.

1. Kerala model of development has led to higher consumption over lower production. Therefore it is necessary to strengthen the weak base of domestic production. The domestic production can be improved if the locally available resources are more effectively utilised. The motto of globalisation is think globally and act locally. Kerala state provides a very effective forum to implement this motto because of the state’s decentralisation experiments.

2. Informal sector is becoming very popular globally and regionally. Formations of informal sector activities lead to social capital formation, consequently investment in productive sectors. These investments will improve the domestic production not only, small investments will lead to more employment opportunities and consequently there will be a multiplier effect.

3. The growth of productive sectors can be ensured through entrepreneurship one of the explanation for the slow development of the state is the absence of entrepreneurship particularly, entrepreneurship using local resources. Entrepreneurship can be promoted through educational institutions, polytechniques, agro based institutions and so
Development of an entrepreneurial culture will help to bridge the production consumption gap.

4. Consumer movements can do a lot in educating the consumers about conspicuous consumption reducing demonstration effect and so on.

In short consumerism can be restricted either by making the consumption baskets rational or reducing the supply demand gap by improving production. Government, non government organisations, substance forums, educational institutions etc can do a lot in this direction.

8.12 Contribution of the Researcher

It is widely believed that Kerala is a consumer state and various hypotheses have been developed to explain the phenomena. A large number of previous studies identified migration, foreign remittance, high education etc as the major determinants. But none of the previous studies tried to examine the urban and rural expenditure pattern and also to assess whether there is any significant difference between the two areas. The present study tried to bridge this research gap and the same is the most important contribution of this study.

8.13. Areas of further research

The primary focus of this work was to identify and to analyse household consumption expenditure in Kerala. This was attempted under four objectives. No research work is complete in all respects. But a dedicated and systematic work will help the researcher to identify further areas of research. Some of them are listed below:
1) The focus of the study was only to identifying and analysing household consumption expenditure. But there are a number of factors and issues behind household consumption expenditure which are not enquired in this study. There is scope for further research on these factors.

2) Consumer credit has expanded rapidly since the latter part of the 1980s, mainly attributable to the expansion in credit card advances. This suggests that households’ liquidity constraints may have become less binding over time. As such, consumer credit can be a potential explanatory variable for consumption. Studies of related issues can be undertaken.

3) Role of children as influencers, changes in family structure and women’s role in household decision making can be studied.

4) In Kerala consumer research is not yet well developed. Stage of Kerala’s development, lack of stiff competition and scarcity of supply provide more scope for research in the area of buying behaviour, brand preference, motivation, customer satisfaction and brand attributes.

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